



EXECUTIVE SUMMARY

Establishment and Operation of Internet-Based Communications Centers

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I. EXECUTIVE SUMMARY

a) Introduction

The idyllic Georgia that John Steinbeck and countless others grew to love no longer exists. After seventy years of Communist rule and ten years of "democratic reform", Georgia is now racked by economic hardship of unusual proportion, rampant corruption and overwhelming despair. While the mid-nineties brought fleeting hope and a degree of short-lived prosperity, 2001 finds a virtually devastated population. As a result of a confluence of global and regional factors- as well as systematic corruption- the government is often unable to meet the basic economic and social needs of its citizens.

Significantly, Russia's imposition in December, 2000 of visa requirements for Georgian citizens wishing to enter the Russian Federation- in conjunction with Moscow's suspension (and quixotic renewal) of natural gas supplies to Georgia-presents additional difficulties for an already precarious Georgian government. Does Georgia adhere to its pro-Western orientation and stated commitment to implement critical economic and democratic reforms? Or, does Georgia make difficult concessions to Moscow and, in fact, cede part of its sovereignty- including withdrawing its insistence on the closure of Russian military bases on Georgian soil. Such concessions might result in additional Russian supplies of electricity and gas, a promise that control of Abkhazia would be restored and/or a range of assurances that Russia would not seek a stronger "affiliation" with, and influence in, Georgia. While pro-Western reformers in the Georgian government seek to

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resolve these difficult questions these very individuals, among many other leaders, have been unable to find workable solutions to Georgia's overwhelming economic, social and political problems.

What has not changed in Georgia in the more than fifty years since John Steinbeck made his poignant observation is the resiliency of the Georgian people, their respect for education and willingness to do anything for their children. Education is everything. Nothing means more to a Georgian family than the education of their sons and daughters. Georgians inherently understand better than anyone and notwithstanding relative income levels- that education will bring provide a child with a "better" life- no matter how the term "better" may be defined.

With per child funding for education the lowest in the world, the Ministry of Education, nevertheless, manages to provide basic and sound educational programs to hundreds of thousands of children throughout the country. With a Ministry comprised of committed professional educators, Minister Kartoza and Deputy Minister Sanadze are at the forefront of those officials in Georgia who truly desire a better life for the country's young people. They perform their duties selflessly and without fanfare. However, despite the Ministry's Herculean efforts, there is minimal central and regional support and meager financing for school programs, mush lees, for new initiatives. This has resulted in an elementary and secondary school system that is often incapable of providing even the basic essentials of a "western" style education- including salaried (and paid) teachers and heated classrooms.

Accessible school libraries, textbooks and school supplies are in very short supply while computers and Internet access are, literally, non-existent. Classes often take place without heat or electricity. Many Georgian families, more or less willingly, provide "supplemental" financial assistance to their child's schooling by making direct cash payments to the school the child attends. The ostensibly "free" Georgian public school system would be unable to provide even

the minimal basic services it presently offers, including paying teachers' salaries, without such direct cash contributions from the population it serves.

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It is within this context that the Feasibility Study for the proposed '"Establishment and Operation of Internet-based Communications Centers in Georgia" ("the Project") was undertaken in April, 2000 by i-world.com.inc., (i-world" or the "Company"), a New York Internet and telecommunications company.

As set forth below, the Project was intended to be a for-profit, commercial business venture that would provide Georgians reliable and cost-effective access to Internet and other Internet-based telecommunications facilities through the provision of Internet-ready computers in elementary and secondary schools. Schoolchildren would be able to utilize these facilities, free of charge, while fees would be charged to community residents to access the communications centers' wide array of Internet and telecommunications services and computer education courses.

b) The Feasibility Study

In January, 2000, in response to a request from Georgian President Eduard Shevardnadze and Georgian Ambassador to the United States, the Hon. Tedo Japaridze, i-world was formed by its executive management and shareholders. i-world subsequently submitted a proposal for funding to the United States Trade and Development Agency ("USTDA") for the partial financing of a Feasibility Study. The purpose of the proposed Feasibility Study was to ascertain whether a commercial enterprise intended, inter alia, to provide computers and Internet access, free of charge, to Georgian schoolchildren could be undertaken as a component of a larger and for-profit Internet/telecommunications venture in Georgia. It is within this framework that i-world was retained by the Ministry of Education of Georgia to evaluate the possibility of the construction and operation of a series of Internet-based Communications Centers situated in Georgian elementary and secondary schools.

i-world's Feasibility Study was intended to assist the Ministry in making key financial and strategic decisions concerning the commercial viability of building and operating these fee-based communications centers in conjunction with providing free Internet-ready computers (and related computer service and English language instructional programs) to Georgia's schoolchildren. Specifically, the Feasibility Study was intended to ascertain, among other matters, consumer

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demand, telecommunications infrastructure support, levels of Georgian (and other) governmental and commercial support, potential utilization by the population, potential Project financing and consumer payment options. Based on the phased results of the Feasibility Study, i-world would also ascertain whether a combination of a) shareholder/investor equity; and b) private/public financing would be available in order that a commercially viable enterprise could be initiated.

In close conjunction with the Georgian Ministry of Education- and pursuant to financing from USTDA- i-world conducted a comprehensive Feasibility Study during the eight month period of April, 2000 through January, 2001, including a comprehensive, country-wide Market Survey of over 5,900 Georgian households. The objective of the Feasibility Study was to determine whether the "Internet in the Schools" program could be achieved as a component of a more expansive and for-profit, commercial enterprise. i-world conducted, among other things, a technical, economic, marketing and regulatory assessment of the telecommunications and Internet sectors, Project financial projections as well

as a comprehensive projection of potential availability of equity and/or debt financing- from both private and public sources.

b) Summary of Conclusions and Recommendations

The i-world Final Report discusses the following findings in greater detail below:

- 1) The Market Survey revealed that while computer penetration is approximately 8%, throughout Georgia, Internet access is approximately 5%.
- 2) Prevailing demand, however, within all sectors of the Georgian population-is very high for Internet-ready computers, cost-effective Internet access and computer/English language instructional programs;
- 3) The Georgian population does not presently have the necessary "disposable" (or any other income) to utilize the fee-based Internet and telecommunications services contemplated by world's Communications Centers. It would be entirely

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unrealistic to assume that the population would be able to make such expenditures in the present Georgian economic environment- particularly in an amount sufficient to offset the Company's fixed and variable operating costs and yield even minimal profit to i-world's investors. (See, for example, The Economist, "Georgia Country Survey" dated August 2000 and attached hereto as Exhibit A and the US BISNIS Review of the Georgian IT sector included as Exhibit F.)

- 4) The Georgian population- urban as well as rurally situated- is strongly (95%) in favor of the provision of Internet-ready computers to Georgian schoolchildren. Equally, 92% of the sampled population- 5,934 households throughout the country- stated that Internet-ready computers and affordable access to the Internet were critical to the country's economic, social and political development. (See also Exhibit B, "1999 Statistical Yearbook of Georgia" published by the State Department for Statistics of Georgia, which details the most recent official statistics on Georgian telecommunications and educational facilities.)
- 5) There are no regulatory issues that would delay the implementation of the proposed Project. i-world's Georgian telecom/ISP partner, SANET, presently holds all of the necessary Georgian licenses to provide ISP and telecommunications services;
- 6) The existing, basically Soviet-times telecommunications infrastructure is highly unreliable and often incapable of providing basic telecommunications services. The existing infrastructure would, however, be able to handle the incremental demand of providing Internet access to i-world's proposed Communications Centers in the country's elementary and secondary schools. Dial-up capability and/or leased lines are sufficiently available for the Project's limited purposes;
- 7) The market survey demonstrated a significant demand for computer education and English language instruction in the schools;

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- 8) While the Georgian government is completely supportive of i-world and the Ministry of Education's objectives, the government will not provide any form of financial or in-kind assistance to implement the Project;

- 9) The seriousness of the current energy crisis, among other factors, effectively precludes the operation of the Communications Centers on a for-profit basis since electricity can only be "assured" for a few hours each day.
- 10) The Ministry of Education provided complete cooperation to i-world and is committed to the Project's implementation. Total transparency prevailed at all times;
- 11) The Project received the enthusiastic endorsement and ongoing assistance of the U.S. Embassy in Tbilisi in addition to the support and guidance of the Georgian Embassy in the United States, particularly through the efforts of Georgian Ambassador to the United States, the Hon. Tedo Japardize.
- 12) Based on the overall results of the Feasibility Study and, particularly, the results of i-world's Market Survey, i-world's shareholders have determined that a) it would not be feasible to make an equity investment in the Project; and b) the Project does not, at the present time, constitute the basis of a viable commercial enterprise.

As set forth below, i-world is recommending to the Georgian Ministry of Education and USTDA that, in light of prevailing economic circumstances and other factors, it would be inadvisable for i-world and its shareholders to proceed as originally intended, that is, to undertake the project as a commercial and for-profit undertaking. i-world is also informing the Ministry of Education and USTDA that, in order to carry out this Project, i-world management and shareholders have formed a new non governmental organization ("NGO"), The Transcaucasus Foundation, Inc. (the "Foundation"), a not-for-profit and Internal Revenue Service ("IRS") tax-exempt, 501(C)(3) corporation.

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The Foundation's Board of Advisors will be headed by General John Shalikashvili (ret.) and the Chairman of its Board of Directors will be former United States Congressman Jack Buechner. The Foundation will feature a highly qualified executive management team and a Board of Advisors comprised of prominent American businessmen, educators and former political office holders.

The Foundation will be the vehicle that executes i-world's Internet program in Georgia and, subsequently, initiates activities in Azerbaijan and other countries. The Foundation's objectives, primarily the Georgian and Azeri "Internet in the Schools" programs, will be implemented by U.S. and local management with the close participation of each country's respective Ministry of Education and private sector Internet service and telecommunications providers and through a combination of governmental, commercial and foundation financing sources.

i-world anticipates that the Foundation will proceed as follows and will commence its activities in Georgia immediately upon the conclusion of its initial funding requirements:

- 0 A U.S.-led management team will have the responsibility of implementing policy initiatives set by the Foundation's Board of Directors and will oversee all expenditures. The inclusion of local management is essential and will reflect Georgians' experience in the Internet and telecommunications industries. (For example, there are a number of very talented individuals in the Georgian Internet sector and their involvement will be actively enlisted.)

E The Foundation's expectations and definitions of "success" will be realistic, relatively modest and relevant to the uniquely difficult circumstances in which Georgia finds itself today. Obviously, to successfully implement any effort in Georgia and elsewhere in the Caucasus is complicated and will involve the resolution of numerous inter-related

As a single example, the management of SANET, Georgia's primary Internet Service Provider- particularly George Kashia its Managing Director- is comprised of unique entrepreneurial and management talent.

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political, economic and social factors. i-world anticipates that there will be very real limitations on what the Foundation is able to accomplish- notwithstanding good intentions and level of available financing.

As noted above, i-world has received the complete support of the Georgian government, particularly President Shevardnadze (and the President's Office) as well as the Ministries of Education and Foreign Affairs. The Georgian Embassy in the United States, headed by Ambassador Japaridze, has been instrumental in providing on-going assistance and support as has Georgian Foreign Minister Meningarishvili. The Georgian Ambassadors to Germany and The European Union, respectively, Konstantin Gabashvili and Konstantin Zaldanatisvili, have also offered their enthusiastic support and assistance in the proposed implementation of the Foundation's objectives.

The management and shareholders of i-world are particularly appreciative of the efforts of Minister of Education Alexandre Kartoza and Deputy Minister Vladimir Sanadze. Minister Kartoza and Deputy Minister Sanadze provided i-world the Ministry's total and unwavering support. Their dedication, under the extremely difficult circumstances that this Ministry finds itself today, should be recognized and commended. i-world has not encountered any difficulties, whatsoever, in maintaining total transparency.

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